

GOVERNMENT OF PAKISTAN
SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

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Islamabad, the 31st August, 2017

NOTIFICATION

S.R.O. 880 (I) 2017.- The following draft of the Listed Companies (Code of Corporate Governance) Regulations, 2017, proposed to be made by the Securities and Exchange Commission of Pakistan, in exercise of powers conferred under Section 156 of the Companies Act 2017 (XIX of 2017) read with section 512 thereof, is hereby published for information of all persons likely to be affected thereby and notice is hereby given that comments, if any, received within fourteen days of the date of this notification shall be taken into consideration, namely:-

CHAPTER 1

Preliminary

- 1. Short Title and Commencement.-** (1) These regulations shall be called Listed Companies (Code of Corporate Governance) Regulations, 2017.
(2) These Regulations shall apply to listed companies.
(3) They shall come into force at once.
- 2. Definitions. –** Words and expressions used but not defined in these regulations shall have the same meaning as assigned to them in the Companies Act 2017 (“the Act”) and the Securities and Exchange Commission of Pakistan Act, 1997 (XLII of 1997).

CHAPTER II

Number of Directorship and Composition of Board

- 3. Number of Directorship.-** No person shall be elected or nominated or hold office as a director of a listed company including as an alternate director of more than five listed companies simultaneously:

Provided that while calculating this limit, the directorship held in the listed subsidiaries of a listed holding company shall be excluded.

- 4. Diversity in Board.-** The board of directors shall ensure that the board as a group comprises of members having the core competencies, diversity, requisite skills, knowledge, experience and fulfils any other criteria relevant in the context of the company’s operations.

5. Representation of Minority shareholders.- The minority shareholders as a class shall be facilitated to contest election of directors by proxy solicitation, for which purpose, the listed companies shall:

- a. annex with the notice issued under section 159 (4) of the Act, a statement by a candidate from among the minority shareholders who seeks to contest election to the board of directors, such statement shall include a profile of the candidate(s);
- b. provide information regarding members and shareholding structure to the candidate(s); and
- c. on a request by the candidate(s) and at the cost of the company, annex to the notice issued under section 159 (4) of the Act an additional copy of proxy form duly filled in by such candidate(s);

6. Independent Director.- (1) The independent directors of each listed company shall not be less than two members or one third of the total members of the board, whichever is higher:

Provided that for the purpose of appointing independent directors, the board shall be reconstituted not later than expiry of its current term pursuant to effective date of these Regulations.

(2) Professional indemnity insurance cover in respect of independent directors shall be encouraged.

(3) Every independent director shall submit a declaration to the company that he qualifies the criteria of independence notified under these Regulations and the Act. Every independent director shall give such declaration to chairman of board at first meeting in every financial year as well as on an event of any change affecting his independence.

7. Female Director.- The board of directors shall have at least one female director when it is next reconstituted or within the next one years from the effective date of these Regulations, whichever is later.

8. Executive Director.- The executive directors, including the chief executive officer, shall not be more than one third of its elected board of directors.

Explanation: Executive director means a director who devotes the whole or substantially the whole of his time (whether paid or not) to the operations of the company.

9. Chairman of Board.- The Chairman and the chief executive officer of a listed company, by whatever name called, shall not be the same person. The chairman shall be elected subject to such terms and conditions and responsibilities as provided under Section 192 of the Act and these Regulations.

CHAPTER III

Responsibilities of Board of Directors and its members

10. (1) In exercise of powers under Section 183 of the Act, the board of directors of a listed company shall carry out its fiduciary duties with a sense of objective judgment and in good faith in the best interests of the company and its stakeholders.

(2) The board of directors is responsible for the governance of risk and for determining the company's level of risk tolerance by establishing risk management policies. The board shall undertake at least annually, an overall review of business risks to ensure that the management maintains a sound system of risk identification, risk management and related systemic and internal controls to safeguard assets, resources, reputation and interest of the Company and shareholders.

(3) The board of directors of a listed company shall ensure that:

- (i) a vision and/or mission statement and overall corporate strategy for the company is prepared, adopted and periodically reviewed.
- (ii) a formal code of conduct that promotes ethical culture in the company and prevents conflict of interest in their capacity as member of the board, senior management and other employees. The board shall take appropriate steps to disseminate code of conduct throughout the company along with supporting policies and procedures and these shall be put on the company's website;
- (iii) adequate systems and controls are in place for identification and redressal of grievances arising from unethical practices;
- (iv) a system of sound internal control is established, which is effectively implemented and maintained at all levels within the company;
- (v) a formal and effective mechanism is put in place for an annual evaluation of the board's own performance, members of board and of its committees;
- (vi) the decisions on the following material transactions or significant matters are documented by a resolution passed at a meeting of the board:
 - a. investment and disinvestment of funds where the maturity period of such investments is six months or more, except in the case of banking companies, non-banking finance companies and insurance companies
 - b. determination of the nature of loans and advances made by the listed company and fixing a monetary limit thereof
- (vii) the board of directors shall define the level of materiality, keeping in view the specific circumstances of the company and the recommendations of any technical or executive sub-committee of the board that may be set up for the purpose;

(4) The board of directors shall maintain a complete record of particulars of the significant policies along with their date of approval or updating. The significant policies include but are not limited to the following:

- a) governance of risks and internal control measures;
- b) human resource management including preparation of a succession plan;
- c) permissible fee for non-executive directors including independent directors
- d) procurement of goods and services
- e) communication policy and investors'/shareholders' relations
- f) marketing
- g) determination of terms of credit and discount to customers
- h) write-off of bad/doubtful debts, advances and receivables
- i) sale and lease of assets, undertaking, capital expenditure, planning and control
- j) investments and disinvestment of funds
- k) debt coverage
- l) determination and delegation of financial powers
- m) transactions or contracts with associated companies and related parties
- n) environmental, social and governance (ESG) including health and safety aspects in business strategies that promote sustainability. This includes but is not limited to corporate social responsibility (CSR) initiatives and other philanthropic activities, donations / contributions to charities and other social causes; and
- o) whistle blowing policy, by establishing a mechanism to receive, handle complaints in a fair and transparent manner while providing protection to the complainant against victimization.

(5) The Chairman of the Board shall, at the beginning of term of each directors, issue letter to appointed directors setting out their role, obligations, powers and responsibilities in accordance with the Act and listed company's Articles of Association, their remuneration and entitlement.

(6) All directors of a listed company shall attend its general meeting(s), (ordinary and extra-ordinary) unless precluded from doing so due to any reasonable cause.

CHAPTER IV

Meeting of Board

11. Agenda and discussion in meetings.- The chairman shall set the agenda of the board's meeting and ensure that reasonable time is available for discussion of the same. All written notices, including the agenda, of meetings shall be circulated at least seven days prior to the meetings, except in the case of emergency meetings, where the notice period may be reduced or waived.

12. Minutes of meeting;- The chairman shall ensure that the minutes of meetings of the board of directors are kept in accordance with the requirements of Section 178 and 179 of the Act. The company secretary shall be secretary to the board.

Provided that where a director of a listed company is of the view that his dissenting note has not been satisfactorily recorded in the minutes of a meeting, the matter may be referred to the company secretary for appending such note to the minutes. If the company secretary fails to do so, the director may file an objection with the Commission

in the form of a statement to that effect within 30 days of the date of confirmation of the minutes of the meeting.

13. Attendance at meeting.- The chief financial officer and the company secretary of a listed company or in their absence, the nominee, appointed by the board, shall attend all meetings of the board of directors.

Provided that the chief financial officer and company secretary shall not attend such part of board meeting wherein agenda item relates to consideration of their performance or terms and conditions of their service or when, in the opinion of the board, their presence in the meeting on any agenda item is likely or may tend to impair the organizational discipline and harmony of the company.

CHAPTER V

Issues to be placed for decision of Board of Directors

14. Significant issues.- The chief executive officer of the listed company shall place significant issues for the information, consideration and decision, as the case may be, of the board of directors or its committees that include but are not limited to the following:

- (i) As soon as chief executive officer foresees risk of default concerning obligations on any loans (including penalties and other dues to a creditor, bank or financial institution or default in payment of public deposit), TFCs, Sukuk or any other debt instrument, the same shall be brought to the attention of board;
- (ii) annual business plan, cash flow projections, forecasts and strategic plan;
- (iii) budgets including capital, manpower and overhead budgets, along with variance analysis;
- (iv) matters recommended and/or reported by the audit committee and other committees of the board;
- (v) quarterly operating results of the listed company as a whole and in terms of its operating divisions or business segments;
- (vi) internal audit reports, including cases of fraud, bribery, corruption, or irregularities of material nature;
- (vii) management letter issued by the external auditors;
- (viii) details of joint venture or collaboration agreements or agreements with distributors, agents etc.;
- (ix) promulgation of or amendment to a law, rule or regulation, applicability of financial reporting standard and such other matters as may affect the company and the status of compliance therewith;
- (x) status and implications of any law suit or proceedings (show cause notice, demand or prosecution notice) of material nature, filed by or against the listed company;
- (xi) failure to recover material amounts of loans, advances, and deposits made by the listed company, including trade debts and inter corporate finance;
- (xii) any significant accidents, fatalities, dangerous occurrences and instances of pollution and environmental problems involving the listed company;

- (xiii) significant public or product liability claims made or likely to be made against the listed company, including any adverse judgment or order made on the conduct of the listed company or of another company that may bear negatively on the company;
- (xiv) report on governance, risk management and compliance issues. Risks to be considered shall include reputational risk and shall address risk analysis, risk management and risk communication;
- (xv) disputes with labor and their proposed solutions, any agreement with the labor union or collective bargaining agent and any charter of demands on the listed company;
- (xvi) reports on /synopsis of issues and information pursued under the whistle blowing policy, clearly disclosing how such matters were dealt with and finally resolved or concluded;
- (xvii) implementation of environmental, social and governmental and health and safety business practices including report on corporate social responsibility activities and status of adoption/compliance of corporate social responsibility (Voluntary) Guidelines 2013 or any other regulatory framework as applicable;
- (xviii) payment for goodwill, brand equity or intellectual property;
- (xix) sale of assets, investments and interest in subsidiaries and undertakings, of material amount or significant nature, which is not in the ordinary course of business; and
- (xx) quarterly details of foreign exchange exposures and the safeguards taken by management against adverse exchange rate movement, if material.

15. Related party transactions.- (1) The details of all related party transactions shall be placed periodically before the Audit Committee of the company and upon recommendations of the audit committee the same shall be placed before the board for review and approval.

(2) The related party transactions, not executed at arm's length price, shall also be placed separately at each board meeting along with necessary justification for consideration and approval of the board on recommendation of the Audit Committee of the listed company.

(3) The board of directors of a company shall approve the pricing methods for related party transactions that were made on the terms equivalent to those that prevail in arm's length transaction, only if such terms can be substantiated.

16. Conflict of Interest.- (1) For the limited purpose of consideration and decision by the board of directors on any agenda item referred in the Act, or in respect of any other matter, if any director has a conflict of interest therein in terms of the Act, then in addition to the provisions of section 207 of the Act and notwithstanding anything contained in the articles of association of a listed company, the directors shall ensure that the quorum of the meeting of the board shall not be deemed to be present unless at least two independent directors are also present at such meeting in person or through video link when such matter comes up for the first time for consideration of the board.

CHAPTER VI

Remuneration of Directors

17. Formal Policy.- The board of directors shall have in place a formal policy and transparent procedure for fixing the remuneration packages of individual directors for attending meetings of the board and its committees.

18. Determination of remuneration.- (1) No director shall determine his own remuneration. Levels of remuneration shall be appropriate and commensurate with the level of responsibility and expertise and to attract and retain the directors needed to govern the company successfully to encourage value creation. However, it shall not be at a level that could be perceived to compromise their independence.

(2) The process adopted for determination of director's remuneration shall comply with the provisions of the Act and the Company's articles of association:

Provided that if the company's articles of association authorizes the board to determine director's remuneration, an independent consultant may be engaged to recommend an appropriate level of remuneration for consideration and approval of the board.

CHAPTER VII

Directors' Training Program

19. Directors' Orientation Program.- All listed companies shall make appropriate arrangements to carry out orientation courses for their directors to acquaint them with these Regulations, applicable laws, their duties and responsibilities to enable them to effectively govern the affairs of the listed companies for and on behalf of shareholders.

20. Directors' Training.- (1) It shall be mandatory for all listed companies to ensure that:

- a) by June 30, 2018, at least half of the directors on their boards;
- b) by June 30, 2019 at least 75% of the directors on their boards; and
- c) by June 30, 2020 all the directors on their boards have acquired the prescribed certification under any director training program offered by institutions, local or foreign, that meet the criteria specified by the Commission and approved by it.

(2) A newly appointed director on the board shall acquire, unless exempted or already in possession of the required certification, the directors training program certification within a period of six months from the date of appointment as a director on the board:

Provided that director having a minimum of 14 years of education and 15 years of experience on the board of a listed company, local and/or foreign, shall be exempt from the directors training program.

CHAPTER VIII

Chief Financial Officer, Company Secretary and Head of Internal Audit

21. Approval.- The board of directors shall determine appointment, remuneration, terms and conditions of employment of chief financial officer, company secretary and head of internal audit of listed companies.

22. Removal.- The removal of the chief financial officer, company secretary and head of internal audit of a listed company shall be made with the approval of the board of directors:

Provided that the head of internal audit may be removed upon recommendation of the audit committee.

Explanation: For this purpose, the term “removal” shall include non-renewal of contract.

23. Qualification of chief financial officer.- No person shall be appointed as the chief financial officer of a listed company unless he has at least five years of managerial experience in fields of audit or accounting or in managing financial or corporate affairs functions of a company and is:

- a) a Member of a “recognized body of professional accountants”; or
- b) has a postgraduate degree in finance from a university in Pakistan or equivalent recognized and approved by the Higher Education Commission of Pakistan (HEC).

24. Qualification of Internal Auditor.- No person shall be appointed as the head of internal audit unless he/she has three years of relevant experience in audit or finance or and is:

- a) a member of a recognized body of professional accountants; or
- b) a Certified Internal Auditor; or
- c) a Certified Fraud Examiner; or
- d) a Certified Internal Control Auditor; or
- e) has a post graduate degree in business, finance, law or engineering from a university or equivalent recognized and approved by the Higher Education Commission of Pakistan (HEC) and is a member of a recognized body relevant to such qualification, where applicable.

Explanation: the expression, “recognized body of professional accountants” means:

- 1) established in Pakistan means a body of professional accountants in Pakistan governed under a special enactment of the Federal Government as a self-regulatory organization managed by a representative National Council, and has a prescribed minimum criterion of examination and entitlement of membership of such body; or
- 2) established outside Pakistan means a body of professional accountants recognized and established under a special enactment in the country of its origin and which is a member of the International Federation of Accountants (IFAC).

CHAPTER IX

Responsibility for Financial Reporting and Corporate Compliance

25. Financial statement endorsed by chief financial officer and chief executive officer.- The chief executive officer and the chief financial officer shall duly endorse the quarterly, half-yearly and annual financial statements under their respective signatures prior to placing and circulating the same for consideration and approval of the board of directors.

26. External Auditor.- Chief executive officer and chief financial officer shall have the half-yearly and annual accounts (both separate and consolidated where applicable) initialed by the external auditors before presenting it to the audit committee and the board of directors for approval.

CHAPTER X

Committees of Board

27. Audit Committee.- (1) Composition: The audit committee shall be constituted by board of directors keeping in view the following requirements:

- a) The board of directors of every listed company shall establish an audit committee of at least of three members comprising of non-executive directors and at least one independent director.
- b) Chairman of the committee shall preferably be an independent director, who shall not be the chairman of the board.
- c) The board shall satisfy itself such that at least one member of the audit committee qualifies as “financially literate”.
Explanation: Expression “financial literate” shall mean a person who is a member of a recognized body of professional accountants or has a post graduate degree in finance from a university or equivalent institution, either in Pakistan or abroad recognized by the Higher Education Commission of Pakistan.
- d) The Audit Committee of a listed company shall appoint a secretary of the committee who shall either be the company secretary or head of internal audit.

(2) Meeting: The meeting of the audit committee shall be held as per the following requirements:

- a) The audit committee of a listed company shall meet at least once every quarter of the financial year. These meetings shall be held prior to the approval of interim results of the listed company by its board of directors and after completion of external audit.
- b) A meeting of the audit committee shall also be held, if requested by the external auditors or the head of internal audit.
- c) The chief financial officer, the head of internal audit and external auditors represented by engagement partner or in his absence any other partner

designated by the audit firm shall attend meetings of the audit committee at which issues, if any, relating to accounts and audit are discussed:

Provided that chief executive officer and the chief financial officer shall not attend any meeting of the audit committee except by invitation only.

Provided further that at least once a year, the audit committee shall meet the external auditors without the chief financial officer and the head of internal audit being present.

Provided further that at least once a year, the audit committee shall meet the head of internal audit and other members of the internal audit function without the chief financial officer and the external auditors being present.

(3) **Terms of Reference:** The board of directors of every listed company shall determine the terms of reference of the audit committee. The board of directors shall provide adequate resources and authority to enable the audit committee to carry out its responsibilities effectively. The terms of reference of the audit committee shall be explicitly documented and shall also include the following:

- a) determination of appropriate measures to safeguard the listed company's assets;
- b) review of quarterly, half-yearly and annual financial statements of the listed company, prior to their approval by the Board of Directors, focusing on:
 - (i) major judgmental areas;
 - (ii) significant adjustments resulting from the audit;
 - (iii) going concern assumption;
 - (iv) any changes in accounting policies and practices;
 - (v) compliance with applicable accounting standards;
 - (vi) compliance with listing regulations and other statutory and regulatory requirements; and
 - (vii) significant related party transactions.
- c) review of preliminary announcements of results prior to publication;
- d) facilitating the external audit and discussion with external auditors of major observations arising from interim and final audits and any matter that the auditors may wish to highlight (in the absence of management, where necessary);
- e) review of management letter issued by external auditors and management's response thereto;
- f) ensuring coordination between the internal and external auditors of the listed company;
- g) review of the scope and extent of internal audit, audit plan, reporting framework and procedures and ensuring that the internal audit function has adequate resources and is appropriately placed within the listed company;

- h) consideration of major findings of internal investigations of activities characterized by fraud, corruption and abuse of power and management's response thereto;
- i) ascertaining that the internal control systems including financial and operational controls, accounting systems for timely and appropriate recording of purchases and sales, receipts and payments, assets and liabilities and the reporting structure are adequate and effective;
- j) review of the listed company's statement on internal control systems prior to endorsement by the board of directors and internal audit reports;
- k) instituting special projects, value for money studies or other investigations on any matter specified by the board of directors, in consultation with the chief executive officer and to consider remittance of any matter to the external auditors or to any other external body;
- l) determination of compliance with relevant statutory requirements;
- m) monitoring compliance with these regulations and identification of significant violations thereof;
- n) review of arrangement for staff and management to report to audit committee in confidence, concerns, if any, about actual or potential improprieties in financial and other matters and recommend instituting remedial and mitigating measures;
- o) recommend to the board of directors the appointment of external auditors, their removal, audit fees, the provision of any service permissible to be rendered to the listed company by the external auditors in addition to audit of its financial statements. The board of directors shall give due consideration to the recommendations of the audit committee and where it acts otherwise and shall record the reasons thereof.
- p) consideration of any other issue or matter as may be assigned by the board of directors.

(4) **Reporting Procedure:** The secretary of audit committee shall circulate minutes of meetings of the audit committee to all members, directors, head of internal audit and the chief financial officer prior to the next meeting of the board and where this is not practicable, the chairman of the Audit Committee shall communicate a synopsis of the proceedings to the board and the minutes shall be circulated immediately after the meeting of the board.

28. Human and Remuneration Committee: - (1) **Composition:** There shall be a human resource and remuneration committee of at least of three members comprising a majority of non-executive directors of whom atleast one member shall be an independent director. The chairman of the committee shall be an independent director. The chief executive officer may be included as a member of the committee.

(2) **Meeting:** The committee shall meet at least once in every six months of the financial year and may meet more often if requested by a member of the board, or committee itself or the chief executive officer. The head of human resource or any other person appointed by the board of directors may act as the secretary of the committee. The chief executive officer (if not a member of the committee), head of human resource (if not the

secretary to committee) or any other advisor or person may attend the meeting only by invitation. A member of committee shall not participate in the proceedings of the committee when an agenda item relating to his performance or review or renewal of the terms and conditions of his service comes up for consideration

(3) **Terms of Reference:** The Terms of reference of committee shall be determined by the board of director which may include the following:

- i. leading the process for board appointments, identifying and assessing candidates who are qualified for election of directors (in particular, independent directors) after invoking necessary procedures for making recommendations to the board prior to publishing names of nominees for election of directors by the general meeting;
- ii. recommend to the board for consideration and approval a policy framework for determining remuneration of directors (both executive and non-executive directors and members of senior management). The definition of senior management will be determined by the board which shall normally include the first layer of management below the chief executive officer level;
- iii. undertaking annually a formal process of evaluation of performance of the board as a whole and its committees either directly or by engaging external independent consultant and if so appointed, a statement to that effect shall be made in the directors' report disclosing name, qualifications and major terms of appointment;
- iv. recommending human resource management policies to the board;
- v. recommending to the board the selection, evaluation, development, compensation (including retirement benefits) and succession planning of the chief executive officer;
- vi. recommending to the board the selection, evaluation, development, compensation (including retirement benefits) of chief operating officer, chief financial officer, company secretary and head of internal audit;
- vii. consideration and approval on recommendations of chief executive officer on such matters for key management positions who report directly to chief executive officer or chief operating officer; and
- viii. where human resource and remuneration consultants are appointed, their credentials shall be known by the committee and a statement shall be made by them as to whether they have any other connection with the company.

29. Nomination Committee: The board may in its sole discretion constitute a separate committee which may be designated as the nomination committee of such number and class of directors as it may deem appropriate in its circumstances. The nomination committee shall be responsible for considering and making recommendations to the Board in respect of appointments to the Board, the Board committees and the chairmanship of the Board committees. It is also responsible for keeping the structure, size and composition of the Board under regular review and for making recommendations to the Board with regard to any changes necessary. The terms of reference of nomination committee shall be determined by the board of directors which may specifically include matters stipulated under terms of reference of human resource committee, in which case

the same shall be deemed to be excluded from terms of reference of human resource and remuneration committee.

30. Risk Management Committee: The board may constitute the risk management committee to carry out a review of effectiveness of risk management procedures and present a report to the Board. The terms of reference of the committee shall include the following:

- a) Monitoring and review of all material controls (financial, operational, compliance);
- b) Risk mitigation measures are robust and integrity of financial information is ensured; and
- c) Appropriate extent of disclosure of company's risk framework and internal control system in Directors report.

CHAPTER XI

Internal Audit

31. (1) Composition: (a) There shall be an internal audit function in every listed company. The head of internal audit shall functionally report to the audit committee and administratively to the chief executive officer and his performance appraisal shall be done jointly by the Chairman of the audit committee and the chief executive officer. A director cannot be appointed, in any capacity, in the internal audit function to ensure independence of the internal audit function.

(2) **Functional profile:** (a) The listed company shall ensure that head of internal audit is suitably qualified, experienced and conversant with the company's policies and procedures.

(b) The internal audit function, wholly or partially, may be outsourced by the company to a professional services firm or be performed by the internal audit staff of holding company. In lieu of outsourcing, the company shall appoint or designate a fulltime employee other than chief financial officer, as head of internal audit holding equivalent qualification prescribed under these Regulations, to act as coordinator between firm providing internal audit services and the board.

Provided that while outsourcing the function, the company shall not appoint its existing external auditors as internal auditors.

(c) All listed companies shall ensure that internal audit reports are provided for the review of external auditors. The auditors shall discuss any major findings in relation to the reports with the audit committee, which shall report matters of significance to the board of directors.

CHAPTER XII

External Audit

32. Terms of Appointment.- (1) No listed company shall appoint as external auditors, a firm of auditors, which has not been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan and registered with Audit Oversight Board of Pakistan.

(2) No listed company shall appoint as external auditors, a firm of auditors which or a partner of which is non-compliant with the International Federation of Accountants' Guidelines on Code of Ethics, as adopted by the Institute of Chartered Accountants of Pakistan.

(3) The Board of Directors of a listed company shall recommend appointment of external auditors for a year and his remuneration, as suggested by the audit committee. The recommendations of the audit committee for appointment of an auditor or otherwise shall be included in the Directors' Report. In case of a recommendation for appointment of an auditor other than the retiring auditor, the reasons for the same shall be included in the Directors' Report.

(4) No listed company shall appoint its auditors to provide services in addition to audit except in accordance with these regulations and shall require the auditors to observe applicable International Federation of Accountants guidelines in this regard. The listed company shall ensure that the auditors do not perform management functions or make management decisions, responsibility for which remains with the board of directors and management of the listed company.

(5) No listed company shall appoint a person as an external auditor or a person involved in the audit of a listed company who is a close relative (spouse, parents, dependents and non-dependent children) of the chief executive officer, the chief financial officer, the head of internal audit, the company secretary or a director of the listed company.

(6) Every listed company shall require external auditors to furnish a management letter to its board of directors within 45 days of the date of audit report:

Provided that any matter deemed significant by the external auditor shall be communicated in writing to the board of directors prior to the approval of the audited accounts by the board of directors.

34. Rotation of auditors.- (1) All listed companies in the financial sector shall change their external auditors every five years.

Provided further that all inter related companies/ institutions, engaged in business of providing financial services shall appoint the same firm of auditors to conduct the audit of their accounts.

Explanation: Financial sector, for this purpose, means banks, non-banking financial companies (NBFCs), modarabas and insurance/takaful companies.

(2) All listed companies other than those in the financial sector shall, at the minimum, rotate the engagement partner after every five years.

CHAPTER XIII

Reporting

35. Directors' report.- The quarterly unaudited financial statements of listed companies shall be published and circulated along with directors' review on the affairs of the listed company and in accordance with the requirements of Section 227 of the Act.

36. Directors holding shares of Company.- (1) Where any director, chief executive officer or executive of a listed company or their spouses and minor children sell, buy or transact, whether directly or indirectly, in shares of the listed company of which he is a director, chief executive officer or executive, as the case may be, or in the shares of any listed holding company of such listed company, he shall comply with the requirements of Securities Act 2015.

37. Closed period.- (1) Each listed company shall determine a closed period prior to the announcement of interim/final results and any business decision, which may materially affect the market price of its shares.

(2) The closed period shall start from the day when any document/statement, which forms the basis of price sensitive information, is sent to the board of directors and terminate after the information is made public.

(3) Every listed company shall advise its directors about the closed period at the time of circulating agenda and working papers for the board meetings, along with sending intimation of the same to the stock exchanges.

(4) No director, chief executive officer or executive shall, directly or indirectly, deal in the shares of the listed company or that of its holding company, in any manner during closed period.

CHAPTER XIV

Disclosure

38. Composition of Board.- The board shall state in the Directors' Report the names of:

- (i) Independent Directors
- (ii) Other Nonexecutive Director
- (iii) Executive Directors
- (iv) Female director (s)

39. Director's remuneration.- (1) The Directors in their report to members shall state the remuneration policy of non-executive directors including independent directors, as approved by the board of directors. This includes disclosing the significant features and elements thereof. Listed companies are also encouraged to post on the company's web site the principal elements of the directors' remuneration policy.

(2) The company's Annual Report shall contain details of aggregate amount of remuneration separately of executive and non-executive directors, including salary/fee, perquisites, benefits and performance-linked incentives etc.

40. Committees of the Board.- The names of Members of board committees shall be disclosed in each Directors' Report of the listed company.

41. Compliance Statement and Auditor Review.- (1) All listed companies shall publish and circulate a statement as per the Regulation specified by Commission along with their annual reports to set out the status of their compliance with the requirements of Regulations. The statement shall be specific and deemed to be supported by the necessary evidence held by the company making the said statement.

(2) All listed companies shall ensure that the statement of compliance is reviewed and certified by statutory auditors as per Regulations specified by Commission. Statutory auditors of listed company shall ensure that any non-compliance with the CCG requirements is highlighted in their review report.

CHAPTER XV

Compliance with Regulations

42. Penalty for contravention of Regulations: Whoever fails or refused to comply with, or contravenes any requirements of the Regulations, knowingly or willfully authorizes or permits such failure, refusal or contravention, in addition to any other liability under the Act, be punishable with a fine and in case of continuing failure, to a further fine as provided under sub-section (2) of section 512 of the Act.

No. Sy/SECP/8/13



(Bushra Aslam)
Executive Director (CCD)